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Cost Accounting

Theory and Practice



Bhabatosh Banerjee

CONTENTS

Preface xvii

Acknowledgements xix

PART I INTRODUCTION, BASIC CONCEPTS AND COST CLASSIFICATION

1. BASIC CONCEPTS AND TERMS 3-23

Cost Accounting	3
Cost Concept and Cost Object	4
Types of Costs	4
Cost and Expense	6
Financial Accounting and Cost Accounting	6
Cost Accounting and Management Accounting	8
Functions of an Organization	9
Business Functions as Value Chain	11
Cost Management	12
Methods of Costing	12
Techniques of Costing	15
Comparison of Costing Methods and Techniques	16
Evolution of Cost Accounting	17
Need for Costing and Installation of a Costing System	19
Multiple Choice Questions	21
Exercises	22

2. CLASSIFICATION OF COSTS AND COST SHEET -24-45

Classification of Costs	24
Cost of Sales	30
Cost Centre, Cost Unit, Profit Centre and Investment Centre	31
Cost Sheet	33
Total Costs and Unit Costs	39
Different Costs for Different Purposes	39
Multiple Choice Questions	40
Exercises	42

PART II ELEMENTS OF COST AND OVERHEADS

3. MATERIAL COST MANAGEMENT	49-129
Section I: Managing Purchase Functions	49
Need for Efficient Purchasing	49
Organization for Purchasing	50
Procedure in the Purchasing Department	51
Material Costs	59
<i>Multiple Choice Questions</i>	60
<i>Exercises</i>	61
Section II: Storing of Materials	63
Why Efficient Storing?	63
Location and Types of Stores	63
The Storekeeper	64
Requisitioning for Stores	65
Receipt, Issue and Transfer of Materials	76
Stores Records	79
Stores Losses	80
Accounting for Material	81
<i>Problems and Solutions</i>	82
<i>Multiple Choice Questions</i>	86
<i>Exercises</i>	87
Section III: Valuing Material Issues	92
Various Methods for Valuing Materials Issued	92
Stock Valuation	103
<i>Problems and Solutions</i>	104
<i>Multiple Choice Questions</i>	110
<i>Exercises</i>	112
Section IV: Operating Control Systems	117
Why Material Control?	117
Organization	117
Installation of the System	118
Just-in-Time (JIT) Purchasing	120
Stock Turnover	120
Perpetual Inventory	122
Periodic Inventory	124
ABC Analysis	124
<i>Multiple Choice Questions</i>	127
<i>Exercises</i>	128

4. LABOUR COST MANAGEMENT

130-204

Section I: Recruitment, Time-Keeping and Time-Booking 130

Introduction 130

Recruitment 131

Time-Keeping 132

Time-Booking 133

Job Evaluation 137

Merit Rating 139

Multiple Choice Questions 140*Exercises* 141**Section II: Methods of Remuneration** 142

Introduction 142

Need for Incentive Schemes 142

Factors to be Considered 143

Essential Features of an Effective Wage Plan 143

Methods of Remuneration 144

Problems and Solutions 160*Multiple Choice Questions* 165*Exercises* 167**Section III: Preparation and Payment of Wages and Accounting** 173

Preparation and Payment of Wages 173

Accounting for wages 176

Problems and Solutions 182*Multiple Choice Questions* 185*Exercises* 186**Section IV: Labour Turnover** 189

Labour Turnover: Meaning and Nature 189

Causes of Labour Turnover 189

Measurement of Labour Turnover 190

Effect of Labour Turnover 191

Cost of Labour Turnover 192

Treatment of Cost of Labour Turnover 193

Problems and Solutions 194*Multiple Choice Questions* 197*Exercises* 197**Section V: Labour Cost Control** 200

Introduction 200

Organization for Control 200

Areas of Control 201

Techniques of Control 202

Multiple Choice Questions 203*Exercises* 204

5. OVERHEADS	205-299
Section I: Definition and Classification	205
Meaning and Importance	205
Classification	206
Classification into Groups: Standing Order Numbers and Cost Account Numbers	210
Multiple Choice Questions	212
Section II: Production Overheads	214
Introduction	214
Collection of Overheads	214
Distribution to Production and Service Departments	215
Redistribution of Service Department Costs	217
Allocation and Apportionment of Cost	223
Limitations of Apportionment of Overheads	223
Absorption of Overheads by Production Units	224
Methods of Absorption	226
Choice of Appropriate Overhead Rate	232
Under- or Over-absorbed Overheads	232
Capacity Costs	235
Problems and Solutions	239
Multiple Choice Questions	251
Exercises	254
Section III: Administration and Selling and Distribution Overheads	265
Administration Overheads	265
Selling and Distribution Overheads	267
Problems and Solutions	271
Multiple Choice Questions	274
Exercises	276
Section IV: Miscellaneous Indirect Expenses	279
Depreciation	279
Maintenance of Plant and Machinery	286
Obsolescence	287
Interest on Capital	288
Rent	289
Research and Development Costs	289
Treatment of Certain Other Items in Costs	291
Multiple Choice Questions	297
Exercises	298
6. ACTIVITY BASED COSTING (Allocation of Overhead)	300-333
Problems of Traditional Costing	300
Refining a Costing System	301
Activity Based Costing	302

Cost Analysis under ABC	306
Full Costs as the Product Costs under ABC	308
Benefits and Weaknesses of ABC	310
Factors Influencing Application of ABC	311
ABC as Resource Usage Model	315
Growing Interest in ABC	316
Installation of ABC	317
Activity Based Management (ABM)	319
Activity Based Budgeting (ABB)	320
Problems and Solutions	321
Multiple Choice Questions	329
Exercises	331

PART III COST BOOK-KEEPING

7. COST CONTROL ACCOUNTS	337-366
Costing Books	337
Advantages and Disadvantages	338
Ledgers to be Maintained	338
Principal Accounts	338
Journal Entries	341
Problems and Solutions	346
Multiple Choice Questions	359
Exercises	361
8. RECONCILIATION OF COST AND FINANCIAL ACCOUNTS	367-381
Need for Reconciliation	367
Reasons for Variation	367
Types of Problems on Reconciliation	370
Problems and Solutions	370
Multiple Choice Questions	375
Exercises	376
9. INTEGRATED ACCOUNTS	382-390
Integrated Accounting	382
Procedure	382
Integrated Accounts vis-a-vis Cost and Financial Accounts	383
Valuation of Stocks	385
Integrated Accounting System	385
Integrated Accounts and Standard Costing	387
Multiple Choice Questions	387
Exercises	388

PART IV COSTING METHODS

10. JOB AND CONTRACT COSTING

391-435

Section I: Job Costing 393

- Meaning and Purpose 393
- Choice between Process and Job Costing Procedure 394
- Job Cost Sheet 396
- Accounting 396
- Batch Costing 397
- Job, Batch and Contract Costing 399
- Activity Based Costing 400
- Problems and Solutions 401
- Multiple Choice Questions 410
- Exercises 412

Section II: Contract Costing 417

- Meaning and Features 417
- Types and Procedure 417
- Costs for Contracts 418
- Retention Money 419
- Profit on Uncompleted Contracts 420
- Loss on Uncompleted Contracts 421
- Escalation Clause 422
- Cost-plus Contracts 423
- Problems and Solutions 424
- Multiple Choice Questions 430
- Exercises 432

11. PROCESS COSTING

436-512

Section I: Process Losses and Inter-process Profits 436

- Meaning 436
- Application of Process Costing Procedure 437
- Normal and Abnormal Loss and Abnormal Gain Inter-process Profits 438
- Problems and Solutions 443
- Multiple Choice Questions 449
- Exercises 451

Section II: Equivalent Production 455

- Meaning 455
- Procedure 456
- Problems and Solutions 466
- Multiple Choice Questions 469
- Exercises 471

Section III: Joint Products and By-products 477

- Introduction 477
- Joint Products and By-products 477
- Waste, Scrap, Defectives and Spoilage 479
- Apportionment of Joint Costs 483
- Depth of Processing 494
- Problems and Solutions 495
- Multiple Choice Questions 504
- Exercises 507

12. SERVICE COSTING

513-538

- Meaning and Scope 513
- Transport 514
- Boiler House 521
- Canteen 521
- Hospital 525
- Problems and Solutions 526
- Multiple Choice Questions 533
- Exercises 534

13. UNIFORM COSTING AND INTER-FIRM COMPARISON

539-549

- Uniform Costing 539
- Inter-firm Comparison 542
- Multiple Choice Questions 547
- Exercises 548

PART V COST ANALYSIS FOR DECISION-MAKING

14. MARGINAL COSTING

553-648

- Section I: Conceptual Framework 553**
- Marginal Costing—Nature and Scope 553
- Marginal Cost Equation 564
- Profit/Volume Ratio 565
- Break-Even Chart 566
- The Profit/Volume Graph or Profit Chart 572
- Multi-product Break-Even Chart 575
- Different Types of Break-Even Chart 576
- Advantages and Limitations of a Break-Even Chart 580
- Impact on Profits Due to Changes in Various Factors 581
- Use of Probabilities 585
- Degree of Operating Leverage and CVP Analysis 585
- Advantages and Disadvantages of Marginal Costing 586

Problems and Solutions
Exercises 574

Problems and Solutions 587
 Multiple Choice Questions 598
 Exercises 602

Section II: Management Decisions 611

Application of Marginal Costing 611
 Problems and Solutions 631
 Multiple Choice Questions 639
 Exercises 642

15. RELEVANT COST ANALYSIS AND MANAGEMENT DECISIONS 649-676

Decision-Making Process 649
 Relevant Costs and Revenues 650
 Marginal Costing and Relevant Cost Analysis 651
 Differential Cost Analysis 651
 Marginal Costing vs Differential Cost Analysis 652
 Applications of Differential Cost Analysis 653
 Decision-Making: Relevant Costs and Benefits 653
 Problems and Solutions 665
 Multiple Choice Questions 669
 Exercises 671

PART VI COSTING TECHNIQUES FOR PLANNING AND CONTROL

16. BUDGETARY CONTROL 679-747

Section I: Functional Budgets and Master Budget 679

Introduction 679
 Budget and Budgetary Control 679
 Objectives of Budgetary Control 680
 Organization for Budgetary Control 681
 Functional Budgets 684
 Cash Budget 694
 The Master Budget 699
 Performance Budgeting (PB) 703
 Zero-Base Budgeting (ZBB) 705
 Problems and Solutions 708
 Multiple Choice Questions 718
 Exercises 720

Section II: Flexible Budgets 726

Meaning and Usefulness 726
 Preparation of Flexible Budgets 727
 Seasonal Correction/Adjustment 730
 Operation of Flexible Budgetary Control 732

Problems and Solutions 736
 Multiple Choice Questions 742
 Exercises 744

17. STANDARD COSTING

748-818

Section I: Cost and Sales Variances 748

Introduction 748
 Standard, Standard Cost and Standard Costing 749
 Standard Costing and Budgetary Control 749
 Advantages and Disadvantages of Standard Costing 750
 Preliminaries to the Establishment of Standard Costs 751
 Establishment of Standard Costs 752
 Analysis of Variances 755
 Operating and Planning Variances 774
 Presentation of Variances 776
 Variance Investigations 776
 Disposal of Variances 777
 Problems and Solutions 778
 Multiple Choice Questions 787
 Exercises 791

Section II: Accounting Methods 802

Accounting Methods 802
 Partial Plan Method 802
 Single Plan Method 807
 Dual Plan Method 811
 Comparison of the Accounting Methods 818
 Exercises 818

18. CAPITAL EXPENDITURE DECISIONS

819-875

Section I: Basic Concepts, Tools and Techniques 819

Introduction 819
 Replacement Investment Decisions 820
 New Investment Decisions 823
 Capital Expenditure Decisions and Cost of Capital 843
 Capital Rationing 847
 Problems and Solutions 849
 Multiple Choice Questions 853
 Exercises 854

Section II: Risk Analysis 859

Introduction 859
 Risk and Uncertainty 859
 Types of Risk and Usefulness of Risk Analysis 860
 Incorporating Risk 861
 Problems and Solutions 849
 Exercises 874

PART VII EXTERNAL OVERSIGHT

19. COST AUDIT 879-896

- Definition 879
- Objectives 880
- Appointing Authorities 880
- Advantages of Cost Audit 881
- Organization for Cost Audit 881
- Cost Audit Programme 882
- Areas of Cost Audit 884
- Management Audit 885
- Cost Audit in India 887
- Cost Audit in Other Areas 893
- Multiple Choice Questions 893
- Exercises 895

PART VIII EMERGING AREAS

20. STRATEGIC COST MANAGEMENT 899-936

- Introduction 899
- Strategic Cost Management 900
- Tools of Strategic Cost Management 906
- Problems and Solutions 923
- Multiple Choice Questions 930
- Exercises 933

21. CONTEMPORARY TOPICS 937-987

Section I: Some Concepts and Techniques 937

- Profitability 937
- Return on Capital Employed (ROCE) 938
- Improvement of Profitability 941
- Benchmarking 942
- Cost Reduction 942
- Value Analysis or Value Engineering 945
- Productivity 946
- Cost Estimating 950
- Pricing 953
- Transfer Pricing 957
- Problems and Solutions 959
- Exercises 961

Section II: Operations Research and Quantitative Techniques 964

- Operations Research 964
- Network Analysis 966

Section III: Learning Curve Analysis and Decision-Making 970

- Learning Curve Analysis 970
- Decision-Making Using Probability 975
- Problems and Solutions 981
- Exercises 986

Appendix 1 Official Terminology of the CIMA: Management Accounting 989-999

Appendix 2 Present Value Tables 1000-1003

Bibliography 1005-1006

Answers to Multiple Choice Questions 1007-1011

Answers to Exercises 1013-1030

Index 1031-1044

15. (a) Present Machine (-) ₹ 1,550; A: (-) ₹ 5,180; B: ₹ 3,770.
 (b) 13%, 11% and 14% (approx.) respectively.

Section II: Risk Analysis

8. ENVP ₹ 7,000, Mr. X should open.
 9. NPV: ₹ (-) 17,290 (expected cash flow ₹ 95,000 p.a.)
 10. Range: ₹ 26,000; Expected NPV ₹ 59,000.
 11. (a) ₹ 20,564, (b) Fixed cost 22%; contribution 9.6%

CHAPTER 20: STRATEGIC COST MANAGEMENT

20. (a) Cost reduction target ₹ 1,50,000.
 (b) Currently feasible actual costs come down to ₹ 16,00,025 which becomes (almost) equivalent to the target cost. Hence, the product would be viable.
30. (a)
- | | A | B | C |
|--|--------|--------|--------|
| Prime cost | 80 | 80 | 90 |
| Production overhead
(using ABC) | 70.49 | 44.25 | 33.67 |
| Total production cost | 150.49 | 124.25 | 123.67 |
| Add: Profit 20% on sales
(=25% on cost) | 37.62 | 31.06 | 30.91 |
| (b) Selling price | 188.11 | 155.31 | 154.58 |
- (c) Product A: Target cost ₹ 136 (i.e. ₹ 170 less 20%). Current (feasible) cost: ₹ 150.49. Hence cost reduction target per unit ₹ 150.49 - 136.00 = ₹ 14.49.
31. (a) Value added costs (1 + 7) ₹ 1,80,000; Non-value added costs (4 + 5 + 6) ₹ 55,000; Costs falling in grey area (2 + 3) ₹ 25,000; Total ₹ 2,60,000.
 (b) Value added costs: ₹ 1,95,000; Non-value added costs: ₹ 65,000; Total Costs ₹ 2,60,000.
32. Cost per unit (₹): Traditional method: 8.0; 5.5; 3.5; 4.7 and 13 for periods 1,2,3,4 and 5 respectively. Life cycle costing: ₹ 4.50 per unit over the period. Former shows significant variation from period to period leading to erroneous management decisions that may be taken based on these cost numbers. But life cycle costing provides cost number that will lead to more informed management decisions.
33. Target cost (export price less 15%): ₹ 5,79,06,250. Drifting (current allowable costs) ₹ 5,12,50,000. Since the drifting cost is far less than the target cost, the export order is recommend.
34. Evaluate the proposal by comparing relevant costs with savings in costs of quality, plus opportunity gain (contribution) from additional sales.
- (a) Relevant cost for choosing the new component: ₹ 3,50,000 (i.e. ₹ 35 × 10,000); Savings in quality costs ₹ 4,19,000 (i.e. Rework ₹ 2,56,000; Customer support ₹ 8,000. Transportation ₹ 15,000 and Repair ₹ 1,40,000) plus opportunity gain for additional sale ₹ 5,00,000. Profit will increase by ₹ 5,69,000 (i.e. ₹ 4,19,000 + ₹ 5,00,000 - ₹ 3,50,000).
- (b) Even if the additional sale of 100 printers does not take place, the proposal is worth-implementing because savings in quality costs exceed relevant cost by ₹ 69,000.

INDEX

- ABC analysis, 124
 Abnormal gains, process costing, 439
 Abnormal loss, process costing, 438
 Absorption of overhead,
 actual rate, 224
 choice of rate, 232
 labour hour rate, 228
 machine hour rate, 229
 per cent on direct material cost, 228
 per cent on direct wages, 227
 per cent on prime cost, 228
 pre-determined rate, 225
 production unit, 226
 single rate and departmental rates, 226
 under- or over-absorption, 232
 Accelerated rate of depreciation, 285
 Accelerating premium bonus, 154
 Accounting
 cost, 3
 financial, 6
 functional relationship, 9
 management, 3, 8
 Accounting entries
 capital orders, 345
 direct expenses, 342
 job costing, 396
 labour, 341
 materials, 341
 overhead, 342
 repair orders, 345
 sales, 346
 standard costing, 802
 Accounting for by-products, process costing
 comparative price, 493
 other income method, 490
 proration of joint costs, 494
 reverse cost, 492
 standard cost, 494
 total costs less net yield, 492
 total costs less sales value, 491
 total costs less sales value after setting off
 S&D overhead, 491
 total sales less total costs, 490
 Accounting for joint products
 average unit cost, 483
 contributory margin, 486
 market value methods, 487-489
 physical units, 484
 standard cost, 485
 survey method, 485
 Activity-based budgeting, 320
 Activity-based costing
 and job costing, 400
 and target costing, 916
 and traditional costing, 302
 benefits, 310
 cause-and-effect relationship, 303
 concept, 302
 cost analysis, 306
 cost drivers, 303
 transaction-based, 304
 cost pools and pool rates, 304
 factors influencing, 311
 full costs as product costs, 308
 growing interest in, 316
 installation, 317
 problems of traditional costing, 300
 refining a costing system, 301
 resource usage model, 315
 service costing, 524
 weaknesses, 310
 Activity-based management
 meaning, 319
 non-value-added activities & costs, 319
 Activity ratio, 733
 Actual usage of budgeted capacity ratio, 733

- Added value, 157
- Administration cost budget, 694
- Administration overhead
 - definition, 207, 265
 - treatment, 265
- Advertising expenses, 294
- Allocation and apportionment, 223
- Angle of incidence, 572
- Annuity method of depreciation, 282
- Asset utilization ratios, 544
- Audit of cost accounts, 879
- Average cost, 5, 39
 - method, process costing, 462
- Base stock, materials, 97
- Basic standard, 752
- Batch costing, 397
- Bedaux scheme of remuneration, 149
- Benchmark, 942
- Benchmarking, 942
- Bill of materials, 52
- Bin card, 79
 - and stores ledger, 80
- Boiler house costing, 521
- Break even chart
 - advantages, 580
 - alternative firm, 569
 - angle of incidence, 572
 - assumptions for construction, 554
 - break-even point, 566
 - construction, 568
 - cash, 578
 - contribution, 570
 - different types of, 576
 - detailed, 577
 - interpretation, 569
 - limitations, 580
 - margin of safety, 570
 - meaning, 566
 - multi-product, 575
 - procedure, 569
 - profit-volume graph, 565
- Budget
 - administration cost, 694
 - balance sheet, 699
 - capital expenditure, 693
 - cash, 694
 - functional, 684
 - master, 699
 - meaning, 679
 - performance, 703
 - personnel, 690
 - plant utilization, 692
 - production, 688
 - production cost, 689
 - profit and loss statement, 699
 - purchasing, 691
 - repairs and maintenance cost, 692
 - research and development cost, 694
 - sales, 684
 - selling and distribution cost budget, 686
 - zero-base, 705
 - Budget committee, 681
 - Budget manual, 682
 - Budget period, 682
 - Budgetary control
 - and standard costing, 749
 - budget centre, 681
 - definition, 680
 - flexible, 726
 - level of activity, 682
 - objectives, 680
 - organization chart, 681
 - organization for, 681
 - principal budget factor, 682
 - steps, 680
 - Budgeting
 - activity-based, 319
 - concept, 320
 - steps, 321
 - Building repairs and maintenance, 295
 - Business functions as value chain, 11
 - Buying
 - centralized, 50
 - decentralized, 50
 - By-products
 - accounting methods, 490
 - and joint products, 478
 - definition, 478
 - Calendar variance, 767
 - Canteen costs, 521
 - Capacity costs, 235
 - Capacity to make and sell, 236
 - Capacity variance, 767
 - Capital
 - expenditure budget, 693
 - orders, 345
 - rationing, 847

- Capital expenditure decisions
 - capital rationing, 847
 - criteria
 - addl. rate of return, 821
 - annualized equivalent cost, 833
 - comparative unit cost, 820
 - discounted pay back, 829
 - internal rate of return, 834
 - net present value, 829
 - net terminal value, 839
 - payback period, 826
 - payback profitability, 828
 - payback reciprocal, 828
 - profitability index, 832
 - return on investment, 824
 - importance, 819
 - new investment, 823
 - replacement investment, 820
 - uncertainty and risk, 859
- Capital structure ratios, 544
- Cash break-even chart, 578
- Cash budget, 694
- Cash flow statement, 698
- Centralized buying, 50
- Centralized storage, 64
- Certificates in contract costing, 420
- Classification of cost
 - behaviourwise, 28
 - elementwise, 25
 - functionwise, 27
 - other approaches, 29
- Clock card, 133
- Clocks for the recording
 - card time recorder, 133
 - dial time recorder, 133
- Closing down activity, 661
- Codes for overhead, 211
- Composite costing, 14
- Composite rate of depreciation, 284
- Contract costing
 - costs, 418
 - cost-plus contracts, 423
 - escalation clause, 422
 - loss on uncompleted contracts, 421
 - meaning and features, 417
 - procedure, 417
 - profit on uncompleted contracts, 420
 - retention money, 419
 - types, 417
- Contribution, 565
 - graphs, 570
- Contribution-sales ratio, 565
- Control break-even chart, 579
- Controllable cost variance, 734
- Co-operative audit, 893
- Co-partnership, 159
- Cost
 - and expense, 6
 - centre, 31
 - classification, 24
 - definition, 4
 - elements of, 24
 - estimating, 950
 - fixed costs, 29
 - management, 12
 - opportunity, 656
 - quality, 920
 - semi-variable or mixed, 29
 - types, 4
 - unit, 32
 - variable, 29
- Cost accountant
 - and business functions, 11
 - and value chain, 11
- Cost accounting
 - and financial accounting, 6
 - and management accounting, 8
 - cost and financial accounts reconciled, 367
 - cost card, standard, 755
 - cost control accounts, 337
 - definition, 3
 - evolution, 17
 - items shown only in cost books, 370
 - journal entries, 341
 - ledgers, 338
 - methods, 12
 - principal accounts, 338
 - techniques, 15
 - value demonstrated, 11
- Cost analysis, 30
- Cost audit
 - advantages, 881
 - and management audit, 885
 - appointing authorities, 880
 - areas
 - capacity utilization, 885
 - capital expenditure, 885
 - depreciation, 885
 - labour, 884
 - overheads, 885
 - raw materials, 884
 - audit methodology, 883

- audit programme, 882
- definition, 879
- in India
 - eligibility, 889
 - form and contents, 892
 - history, 887
 - in other areas, 893
 - need for, 888
 - power to order, 888
 - report, 891
 - scope, 890
- objectives, 880
- organization, 881
- report, 891
- scope and areas, 890
- Cost centre, 31
- Cost control A/cs, 337
- Cost drivers, 302
- Cost estimating (*see* estimating)
- Cost management
 - ABC, 124
 - meaning, 12
 - strategic, 12
 - target costs, 914
- Cost object, 4
- Cost of capital,
 - average, 843
 - concept, 843
 - debt, 846
 - equity, 844
 - preference, 846
 - retained earnings, 845
 - weights, 844
- Cost of idle capacity, 238
- Cost-plus contracts, 418
- Cost of sales, 30
- Cost reduction
 - advantages, 945
 - and cost control, 943
 - areas, 943
 - integrated cost reduction, 944
 - meaning, 942
 - target under target costing, 945
- Cost sheet
 - boiler house, 522
 - canteen, 523
 - format, 33, 34
 - hospital, 525
 - job costing, 395, 396, 401, 410
 - meaning, 33
 - transport costing, 517, 518
- Cost unit, 32
- Cost-volume-profit analysis, 554
- CPA, 966
- CPM, 966
- Current standard, 751
- Customer profitability, 657
- C-V-P analysis
 - applications, 629
 - assumptions, 554
 - break-even chart, 566
 - meaning, 554
- Decentralized buying, 50
- Decentralized stores, 64
- Decision-making process, 649
- Defectives, 481
- Departmental costing, 13
- Depreciation
 - definition, 279
 - factors, 279
 - methods of
 - annuity, 282
 - endowment policy, 283
 - production hour, 281
 - production unit, 281
 - reducing balance, 280
 - repair provision, 281
 - revaluation, 283
 - sinking fund, 282
 - straight line, 280
 - sum of the digits, 283
 - on replacement cost, 285
 - rates
 - accelerated, 285
 - composite, 284
 - group, 285
 - single, 284
- Depth of processing, process costing, 494
- Derated capacity, 237
- Development costs, 289
- Differential cost analysis
 - and marginal costing, 652
 - applications, 653
 - differential costs, 651
 - incremental revenue, 652
- Direct expenses, 26
- Direct materials, 25
- Direct wages, 26
- Discounted cash flow
 - annualized equivalent cost, 833
 - critically examined, 834
 - net present value method, 829

- net terminal value, 839
- payback, 841
- profitability index, 832
- yield method, 834
- Discretionary cost, 5
- Distribution overheads, 267
- Dual plan method, standard costing, 811
- Economic batch quantity, 398
- Economic order quantity, 69
- Efficiency
 - ratio, 203, 733
 - variance
 - fixed overhead, 767
 - labour, 762
- Emerson's efficiency bonus plan, 148
- Endowment policy method of depreciation, 283
- Equation method, semi-variable costs, 558
- Equivalent production
 - meaning, 455
 - procedure, 456
 - valuation of WIP
 - when there is only closing WIP, 456
 - when there are opening and closing WIP
 - average cost method, 462
 - comparison of Av. and FIFO, 466
 - FIFO method, 463
- Estimating cost
 - and standard costs, 950
 - approaches in estimating, 951
 - cost estimation by elements of cost, 951
 - definition, 950
 - errors in estimating, 952
 - pre-requisites, 950
 - purposes, 950
- Evolution of cost accounting, 17
- Exercises
 - activity based, 331
 - basic concepts, 22
 - budgetary control, 720, 744
 - capital expenditure decisions, 854, 874
 - classification of costs & cost sheets, 24,
 - contract costing, 432
 - cost audit, 895
 - cost control accounts, 361
 - integrated accounts, 388
 - job costing, 412
 - labour, 141, 167, 186, 204
 - marginal costing, 602, 642
 - materials, 61, 87, 112, 128
- miscellaneous topics, 961, 986
- overhead, 254, 276, 298
- process costing, 451, 471
- reconciliation of cost and financial accounts, 376
- relevant cost analysis, 671
- service costing, 534
- standard costing, 791, 818
- strategic cost management, 933
- uniform costing and inter-firm comparison, 548
- Expected standard, 751
- Expenditure variance
 - fixed overhead, 766
 - variable overhead, 765
- Expenses
 - direct, 26
 - indirect, 27
- Farm costing, 14
- FIFO
 - equivalent production, process costing, 463
 - material issues, 93
- Financial books
 - items shown only in, 369
 - reconciliation with cost books, 370
- Fixed costs, 29
- Fixed overhead, 208
- Flexible budgetary control
 - activity ratio, 733
 - actual usage of budgeted capacity ratio, 733
 - efficiency ratio, 733
 - meeting, 726
 - methods of preparation
 - charting, 728
 - ratio, 728
 - tabular, 727
 - operation
 - with standard costing, 732
 - without standard costing, 732
 - seasonal correction, 730
 - usefulness, 726
- Flow chart: cost control accounts, 340
- Functional budgets (*see* budgets)
- Gantt task and bonus scheme, 149
- Goods received note, 55
- Group bonus schemes of remuneration
 - Priestman's production bonus, 156

- Rucker plan, 157
- Scanlon plan, 158
- Towne gain sharing plan, 158
- Gross margin, 560

- Halsey scheme, 150
- Halsey-Weir scheme, 151
- HIFO, 103
- High and low points, 557
- Hospital, service costing, 525

- Ideal standard, 751
- Idle capacity
 - and excess capacity, 237
 - and idle time, 237
 - and special orders, 654
 - causes, 237
 - costs, 238
 - improvement, 238
 - meaning, 237
 - measurement, 238
- Idle facilities, 176
 - and outsourcing, 654
 - meaning, 654
- Idle time
 - and idle capacity, 237
 - card, 136, 181
 - causes, 179
 - control, 180
 - meaning, 179
 - treatment, 179
 - variance, 763
- Imputed cost, 5
- Incremental revenue, 651
- Indirect expenses, 27
- Indirect materials, 26
- Indirect wages, 26
- Inflated price, materials, 103
- Insourcing or outsourcing, 620
- Installing a costing system, 19
- Integrated accounts
 - and standard costing, 387
 - meaning, 382
 - procedure, 382
 - system, 385
 - vis-à-vis other accounts, 383
- Interest on capital, 288
- Inter-firm comparison
 - advantages and disadvantages, 546
 - meaning, 542
 - procedure, 543
 - purposes, 543
 - pyramid ratios, 545
 - use of ratios, 543
- Internal rate of return method
 - and NPV, 838
 - concept, 834
 - procedure, 835
- Inter-process profits
 - advantages, 441
 - disadvantages, 441
 - how made, 441
 - unrealized profit, 441
- Investment centre, 33
- Investment decisions (*see* capital expenditure decisions)
- Investment ratios, 544
- Invoices, checking, 57

- Job card, 135
- Job costing
 - accounting, 396
 - and ABC, 400
 - and batch costing, 397
 - and contract costing, 399
 - choice between process and, 394
 - economic batch quantity, 397
 - job cost sheet, 396
 - meaning and purpose, 13, 393
 - procedure, 394
- Job evaluation
 - grading method, 138
 - points value method, 138
 - ranking method, 138
- Joint products
 - accounting methods, 483
 - and by-products, 478
 - and co-products, 478
 - meaning, 477
- Just-in-time purchasing, 120

- Kaizen* costing
 - and target costing, 918
 - concept, 918
- Key factor
 - and profitability, 616
 - in budget preparation, 683

- Labour
 - accounting, 176, 178
 - cost, 130
 - cost control, 200
 - direct, 26
 - hour rate, 229
 - incentive schemes, 144
 - indirect, 26
 - merit rating, 139
 - methods of remuneration, 142
 - recruitment, 131
 - time booking, 133
 - time-keeping methods, 132
- Labour turnover
 - causes, 189
 - cost, 192
 - effect, 191
 - meaning, 189
 - measurement, 190
 - treatment, 193
- Learning curve
 - application, 970
 - doubling approach, 971
 - effect on cost, 970
 - equation approach, 972
 - meaning, 970
 - relevance, 973
 - specific curves, 970
 - tables, 974
- Least squares method, 559
- Ledgers kept in costing, 338
- Life-cycle costing
 - capital expenditure, 911
 - justification, 909
 - meaning, 909
 - steps in, 910
- LIFO, 95
- Liquidity ratios, 544
- Locked-in costs, 5

- Machine hour rate, 229
- Machine replacement decision, 820
- Maintenance of plant and machinery
 - cost control, 287
 - meaning, 281
 - objectives, 286
 - treatment in costs, 287
 - types of, 286
- Management accounting
 - and cost accounting, 8
 - functional relationship, 9
 - meaning, 8
- Management audit, 885
- Management by exception, 776
- Managing quality, 922
- Marginal cost
 - determination, 556
 - equation, 564
 - meaning, 554
- Marginal costing
 - advantages and disadvantages, 580
 - and absorption costing, 561
 - and differential cost analysis, 652
 - and pricing, 613
 - and relevant cost analysis, 651
 - angle of incidence, 572
 - application,
 - alternative courses of actions, 626
 - alternative methods of manufacture, 620
 - diversification of products, 611
 - effect of change in selling price, 582
 - level of activity planning, 624
 - make or buy, 620
 - pricing, 613
 - problems of limiting factor, 616
 - selection of optimum volume and selling price, 628
 - selection of profitable product-mix, 615
 - working extra shift, 623
 - assumptions, 554
 - basic equation, 564
 - break-even chart, 566
 - cash break-even chart, 578
 - concept of profit, 560
 - contribution, 560
 - contribution graph, 570
 - contribution sales ratio, 565
 - control break-even chart, 570
 - cost-volume-profit analysis, 554
 - definition, 553
 - determination of marginal costs, 554, 556
 - division of semi-variable overheads, methods, 557
 - margin of safety, 570
 - marginal cost, 554
 - multi-product break-even chart, 575
 - nature and scope, 553
 - profit-volume graph, 572
 - profit-volume ratio
 - applications, 630
 - concept, 565

- improvement of, 566
- use of probabilities, 585
- Market research, 294
- Marketing cost, 15
- Master budget, 699
- Materials
 - ABC analysis, 124
 - accounting, 81
 - control
 - installing the systems, steps, 118
 - objectives, 117
 - organization, 117
 - costs, 25, 29
 - cost management, 49
 - in contract costing, 418
 - in process costing, 437
 - in standard costing, 752, 756
 - issue, 77
 - location and types of stores, 63
 - methods of valuing issues, 92
 - organization for purchasing, 50
 - periodic inventory, 124
 - purchase procedure
 - checking invoices, 57
 - exploring the sources of supply and selecting the supplier, 53
 - placing the order, 54
 - receiving and inspection, 55
 - receiving purchase requisitions, 51
 - receipt, 55
 - stock levels
 - maximum, 65
 - minimum, 65
 - re-order, 66
 - stock turnover, 120
 - storekeeper, 64
 - stores records, 79
 - transfer, 78
- Maximum capacity, 235
- Mixed costs, 29
- Mix variance
 - material, 758
 - sales, 769
 - wages, 763
- Moving
 - simple average, 100
 - weighted average, 101
- Multi-product BEC, 575
- Multiple choice questions
 - activity based, 329
 - basic concepts and terms, 21
- budgetary control, 718, 742
- capital expenditure decisions, 853
- classification of costs and cost sheet, 40
- contract costing, 430
- cost audit, 893
- cost control accounts, 359
- integrated accounts, 387
- job costing, 410
- labour, 140, 165, 185, 197, 203
- marginal costing, 508, 639
- materials, 60, 86, 110, 127
- overhead, 212, 251, 274, 297
- process costing, 449, 469
- reconciliation of cost and financial accounts, 375
- relevant cost analysis, 669
- service costing, 533
- standard costing, 787
- strategic cost management, 930
- uniform costing and inter-firm comparison, 547
- Multiple costing, 14
- Net capital employed, 940
- Net cash flow
 - concept, 825
 - effect of taxation, 841
- Net present value
 - and profitability index, 833
 - and yield method, 838
 - concept, 829
- Net terminal value
 - and IRR, 839
 - concept, 839
- Network analysis
 - activity, 967
 - conventions and rules, 967
 - CPA, 966
 - CPM, 966
 - event, 967
 - meaning, 966
 - PERT, 966
 - steps, 967
 - uncertainty, 969
- NIFO, 103
- Normal capacity, 236
- Normal loss, process costing, 438
- Obsolescence, 287

- Operating capacity, 235
- Operating costing, 513 (*see* service costing)
- Operations research
 - and cost accountant, 966
 - applications, 965
 - building the model, 964
 - characteristics, 964
 - meaning, 964
 - steps in, 964
 - techniques, 966
- Opportunity cost and outsourcing, 656
- Organization functions
 - and value chain, 11
 - downstream, 11
 - mainstream, 11
 - upstream, 11
- Outsourcing
 - and idle facilities, 620, 654
 - opportunity costs and, 656
 - qualitative factors in, 657
- Overheads
 - absorption by production, 224
 - accounting entries, 342
 - adjustment account, 343
 - administration
 - definition, 207
 - treatment, 265
 - classification, 206
 - coding, 211
 - contract costing, 13
 - definition, 205
 - depreciation, 279
 - importance, 205
 - interest on capital, 288
 - marginal costing, 15
 - process costing, 438
 - process of classification into groups, 206
 - production
 - absorption, 224
 - allocation and apportionment, 223
 - collection, 214
 - definition, 207
 - distribution, 215
 - limitations of apportionment of overhead, 223
 - methods of absorption, 226
 - predetermined rate, 225
 - redistribution, 217
 - rent, 289
 - research and development, 289
 - segregation into fixed and variable, 557
- selling and distribution
 - analysis, 267
 - and production, 269
 - control, 270
 - definition, 207
 - semi-variable, methods of segregation, 557
 - under- or over-absorbed overhead, 232
 - variances, 764
 - treatment in costs
 - advertising, 294
 - bad debts, 293
 - building repairs, 295
 - canteen expenses, 291
 - carriage inwards, 292
 - costing dept. exp., 296
 - dearness allowance, 182
 - director's fees etc., 293
 - dismantling etc., 297
 - employer's contribution to ESI, 181
 - erection and installation, 297
 - fire protection service, 294
 - fringe benefits, 182
 - holiday work, 181
 - house rent allowance, 182
 - idle facilities, 176
 - idle time, 179
 - inspection, 293
 - interest on capital, 288
 - labour welfare, 296
 - learner's wages, 182
 - market research, 294
 - obsolescence, 287
 - overtime, 180
 - packing expenses, 292
 - pension costs, 295
 - plant maintenance, 286
 - profit sharing scheme, 295
 - rates and taxes, 296
 - rent, 289
 - research and development costs, 289
 - royalties, 293
 - small tools, 294
 - spoiled work, 296
 - stores losses and gains, 292
 - training exp., 292
 - wages of engineers, etc., 293
 - water pumping, 294
- Packing expenses, 292
- Partial plant method, standard costing, 802

- Payback period, 826
 Payback period with DCF, 841
 Payback profitability, 828
 Payback reciprocal, 828
 Pension costs, 295
 Periodic inventory, 124
 Periodic simple average, materials, 100
 Periodic weighted average, materials, 100
 Performance budgeting, 703
 and traditional budgeting, 704
 effectiveness, 705
 meaning, 703
 steps in, 704
 Perpetual inventory, 122
 PERT, 966
 Personnel budget, 690
 Planning and operating variances, 774
 Planning level of activity, 624
 Plant
 maintenance, 286
 replacement decision, 820
 utilization budget, 692
 Policy cost, 5
 Practical capacity, 235
 Premium bonus schemes of remuneration, 150
 Price reduction, effects of, 624
 Price variance
 labour, 761
 materials, 756
 overheads, 764, 766
 sales, 769, 771
 Pricing,
 and cost accountant, 957
 general approach, 953
 introduction, 953
 methods of, 954
 Priestman's production bonus, 156
 Principal budget factor, 682
 Process costing
 abnormal gains, 438
 abnormal loss, 438
 apportionment of joint costs, 483
 by-products
 accounting methods, 490
 and joint products, 477
 definition, 477
 characteristics, 436
 defectives
 accounting, 481
 control, 481
 definition, 481
 depth of processing, 494
 effective production, 455
 elements of production cost, 437
 equivalent production
 meaning, 13, 455
 valuation procedure, 456
 methods
 average, 462
 FIFO, 463
 FIFO and average compared, 466
 expense, direct, 438
 industries to which applicable, 437
 inter-process profits, 441
 joint products
 accounting, 483
 and by-products, 478
 and co-products, 478
 definition, 477
 labour, 437
 materials, 437
 meaning, 436
 normal loss, 438
 procedure, 436
 production overheads, 438
 provision for unrealized profit in stock, 441
 scrap
 accounting, 480
 control, 480
 definition, 480
 spoilage
 accounting, 482
 control, 482
 definition, 482
 statement of cost, 456
 statement of equivalent production, 456
 statement of evaluation, 456
 waste
 accounting, 479
 control, 479
 definition, 479
 work-in-progress, 456, 461
 Production
 budget, 688
 cost, 27
 cost budget, 689
 order, 394
 overheads, 207, 214
 Production hour method of depreciation, 281
 Production unit method of absorption, 226
 Production unit method of depreciation, 281
 Productivity
 benefits, 949
 concept, 946
 factorial, 948
 improvement, 948
 measurement, 947
 overall, 947
 Profit
 centre, 33
 graphs, 572
 inter-process, 441
 sharing and co-partnership, 159
 uncompleted contracts, 420
 volume ratio, 565
 Profitability
 capital employed, computation, 939
 concept, 937
 improvement, 941
 measurement, 937
 ratios, 544
 Profit sharing, labour, 159
 Purchase
 budget, 691
 just-in-time, 120
 organization, 50
 procedure, 51
 requisitions, 51
 Pyramid ratios, 545

 Quality cost management
 costs of quality, 920
 introduction, 918
 managing quality, 922
 meaning of quality, 919
 quality as a tool, 919
 Quantity variance, 756

 Range method of segregation of semi-variable overheads, 557
 Rate of return, 761
 Rate variance, wages, 761
 Rates and taxes, 296
 Ratio
 activity, 733
 actual usage of budgeted capacity, 733
 asset utilization, 544
 capital structure, 544
 efficiency, 203
 investment, 544
 liquidity, 544
 profitability, 544
 pyramid, 545
 stock turnover, 120
 utilization, 203
 Reciprocal services method, over head, 220
 Reconciliation of cost and financial accounts
 need for, 367
 reasons for variation, 367
 types of problems, 370
 Redistribution of service dept. costs
 bases, 217
 concept, 217
 methods, 218
 Reducing balance method of depreciation, 280
 Relevant cost, 650
 Relevant cost analysis and decision making
 and marginal costing, 651
 applications
 closing down activity, 661
 customer profitability, 657
 outsourcing, 620, 654
 product-mix, 659
 replacement of equipment, 660
 special order, 659
 decision-making process, 649
 relevant costs
 and differential costs, 651
 meaning, 650
 relevant revenues, 650
 Remuneration (labour)
 accelerating premium
 Bedaux, 149
 Emerson's efficiency, 148
 Gantt task and bonus, 149
 factors, 143
 features, 143
 group bonus schemes
 Priestmen, 156
 Rucker, 157
 Scanlon, 158
 Towne, 158
 piece rate
 differential, 147
 Merrick, 148
 straight, 146
 Taylor, 147
 with graduated time rates, 147
 premium bonus
 Halsey, 150
 Halsey-Weir, 151
 Rowan, 151
 Rowan and Halsey, comparison, 152
 profit sharing and co-partnership, 159
 time rates, 144

- Refining a costing system, 301
- Rent, 289
- Repair provision method of depreciation, 281
- Repairs and maintenance cost budget, 692
- Repair orders, 345
- Repeated distribution, overhead, 220
- Replacement of machinery
 - addl. rate of return, 821
 - comparative unit cost, 820
- Replacement price, materials, 101
- Research and development cost budget, 694
- Research costs
 - accounting, 291
 - classification, 290
 - meaning, 289
 - objectives, 290
- Return on capital employed, 938
- Return on investment, profitability, 824
- Re-use price, materials, 103
- Revaluation method of depreciation, 283
- Revision variance, material, 760
- Risk analysis, capital budgeting
 - incorporating risks
 - best, worst & most likely values, 863
 - certainty - equivalent approach, 862
 - decision trees, 864
 - finite horizon, 862
 - higher discounting rate, 861
 - probability analysis, 863
 - sensitivity analysis, 866
 - shorter payback, 861
 - simulation, 868
 - risk and uncertainty, 859
 - types of risk
 - corporate, 860
 - market, 860
 - stand alone, 860
- Rowan scheme, 151
- Royalties, 293
- Rucker plan, 157
- Safety stock, 73
- Sales
 - at or below marginal costs, 613
 - budget, 684
 - variances (*see* standard costing)
- Scanlon plan of remuneration, 158
- Scrap, process costing, 480
- Selling and distribution
 - control, 270
 - cost budget, 686
 - overhead, 207, 267
- Semi variable costs, 29
- Service costing
 - ABC in, 524
 - boiler house, 521
 - canteen, 521
 - hospital, 525
 - meaning and scope, 513
- transport
 - ascertainment of costs, 516
 - classification of costs, 514
 - collection of costs, 514
 - cost control, 520
 - management decisions, 518
 - selection of units, 515
- Service departments, 215
- Simple average method, materials, 97
- Simultaneous equations, 222
- Single plan method, standard costing, 807
- Sinking fund method of depreciation, 282
- Specific price, materials, 93
- Specification of materials, 52
- Spoilage, process costing, 482
- Standard costing,
 - accounting methods, 802
 - advantages and disadvantages, 750
 - and budgetary control, 749
 - attainment of level aimed at, 751
 - control through exceptions, 777
 - disposal of variances, 777
 - efficiency ratio, 733
 - labour, direct, 753
 - material, direct, 752
 - operating and planning variances, 774
 - overhead, fixed, 754
 - overhead, variable, 754
 - presentation of variances, 776
 - standard, 749
 - standard card, 754
 - standard cost, 749
 - standard hour, 754
 - standard production, 762
 - standards, establishment of, 752
 - variance investigation decision, 776
- variances
 - labour
 - cost, 761
 - efficiency, 762
 - idle time, 763
 - mix, 763
 - rate, 761

- materials
 - cost, 756
 - mix, 758
 - price, 756
 - revision, 760
 - usage, 757
 - yield, 758
- overhead (fixed)
 - calendar, 767
 - capacity, 767
 - cost, 766
 - efficiency, 767
 - expenditure, 766
 - total, 766
 - volume, 766
- overhead (variable)
 - expenditure, 765
- sales
 - profit method
 - due to quantity, 771
 - due to selling price, 771
 - due to volume, 771
 - value (turnover) method
 - mix, 769
 - price, 769
 - quantity, 769
 - value, 768
 - volume, 769
- Standard price, materials, 102
- Stock
 - deficiencies, 81
 - treatment, 81
 - turnover, 120
 - valuation, 103
- Stock levels
 - maximum, 65
 - minimum, 65
 - re-order, 66
 - statistical method, 66
- Storekeeper, 64
- Stores
 - accounting, 81
 - audit, 884
 - audit note, 882
 - centralized
 - buying, 50
 - storage, 64
 - control, 117
 - ledger, 79
 - location and types, 63
 - loss, 80
- organization, 117
- periodic inventory, 124
- perpetual inventory, 122
- turnover, 120
- Straight-line method of depreciation, 280
- Strategic cost management
 - meaning, 12, 900
 - methodology, 903
 - strategy, 900
 - value chain analysis, 902
- Sub-contracts, 419
- Sum of the digits method of depreciation, 283
- Sunk cost
 - in decision making, 654
 - meaning, 5
- Target costing, 16, 913
 - and *Kaizen* costing, 918
- Target costs, 914
- Taylor system of remuneration, 147
- Terminal costing, 417
- Theoretical capacity, 235
- Third-entry method, 385
- Time rate, remuneration, 144
- Time sheets, 134
- Total cost
 - analysis, 30
 - definition, 5
- Towne gain sharing plan, 158
- Traditional costing and ABC, 302
- Training expenses, 292
- Transaction-based cost drivers, 304
- Transfer pricing
 - advantages, 958
 - general rule for, 958
 - meaning, 957
 - methods used, 958
 - objectives, 958
- Transport costing, 514
- Turnover of labour, 189
- Turnover of materials, 120
- Uncertainty and risk analysis, 859
- Uncertainty and safety stock, 73
- Under- and over-absorbed overhead, 232
- Uniform costing
 - advantages, 541
 - application, 539
 - causes of variation in cost, 540

disadvantages, 542
meaning, 539
requirements for, 540
Usage variance, materials, 734
Use of assets, ratios, 544
Utilization ratio, 203

Valuation audit in exices, 893
Valuation of material issues, 92
Valuation of stock, 103
Value added, 157
Value analysis
 meaning, 945
 questionnaire, 945
Value chain
 and cost accountant, 11
 and cost management, 11
 firm, as extended value chain, 12
 in paper industry, 902
 meaning, 11
Value variance, turnover method, 768
Variable cost, 29
Variable overhead, 208
Variance (*see* standard costing)
Variance investigation decision, 776
Volume variance
 fixed overhead, 766
 sales, 771

Wages (*see also* labour)
 accounting, 176, 178
 contract costing, 418
 direct, 26
 indirect, 26
 methods, 144
 preparation and payment, 173
 process costing, 437
 sheet, 177
 standard cost in relation to, 755
 variance, 761
Waste, process costing, 479
Weighted average, materials, 99
Work-in-progress, process costing, 456
Work study
 method study, 136
 time study, 137

Yield method, capital budgeting, 834
Yield variance, materials, 758

Zero-base budgeting
 advantages, 706
 applicability, 705
 criticisms, 708
 Indian scene, 708
 meaning, 705
 steps, 705



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THE AUTHOR

BHABATOSH BANERJEE, Ph.D., is former Professor, Department of Commerce and Dean, Faculty of Commerce, Social Welfare and Business Management, University of Calcutta. Currently he is Visiting Professor at Indian Institute of Management Calcutta. He has more than four decades of teaching experience at the postgraduate level. He worked as a Visiting Professor of Accounting in two reputed universities (both private and State) in the USA during 1995-1997. He is the Editor of *Indian Accounting Review* and President of Indian Accounting Association (IAA) Research Foundation.

Dr. Banerjee has authored several books in the area of finance and accounting.

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